

Connecticut Office of Consumer Counsel

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OCC NEWSLETTER

Budget Act Putting Hidden Tax on Electric Ratepayers

The Office of Consumer Counsel (OCC) is deeply concerned about **Public Act 10-179, An Act Making Adjustments to State Expenditures for the Fiscal Year Ending June 30, 2011** (Budget Act).

This legislation was passed during the 2010 legislative session. It balances the 2011 budget through charges on electric bills, which is poor public policy, creates a dangerous precedent and is nothing more than a hidden tax on already-struggling residential and commercial customers.

This charge would be a continuation of the Competitive Transition Charge (CTA), which was

originally added to customers' bills in 1998 when electric restructuring was enacted.

CL&P and UI, at that time, were allowed to implement this charge to cover for generation and other costs that were "stranded" by market developments. The CTA amounts are scheduled to expire soon, at which time the original debt would be paid off and customers would see their electric bill go down.

Instead, the charge will be continued, and every CL&P and UI customer (both residential and commercial) will be forced to pay an average \$1,000 tax.

As required by this new law, the Department of Public Utility Control (DPUC) has opened a docket (**10-06-20, Applications of the Connecticut Light and Power Company and the United Illuminating**

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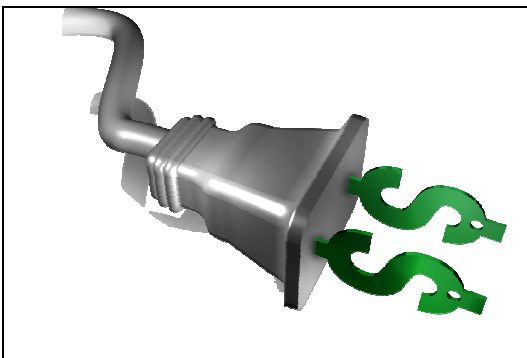
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Company for Issuance of Economic Revenue Recovery Bonds Financing Order) to implement this new tax on electricity customers. As distasteful as this unprecedented manner of balancing the state budget is, the OCC will nonetheless vigorously advocate in this proceeding that the new tax be implemented as fairly as possible.

Customers are encouraged to participate in this docket, as well as contact their legislators and urge them to reverse the CTA charge during the next legislative session.

Public hearings are scheduled for September 7th at 7:00 p.m. in New Haven and on September 14th at 7:00 p.m. in Waterbury.



OCC Named "Broadband Policy and Programs Coordinator, State ARRA Broadband Stimulus Office"

In response to the federal economic stimulus grant funding slated to promote jobs and investment in broadband capacity and usage across Connecticut, the creation and management of the federally-funded Connecticut Broadband Strategy Plan will be coordinated by a "Broadband Policy and Programs Coordinator, State ARRA Broadband Stimulus Office" in the OCC, in association with the Office of the Governor, the Department of Public Utility Control, and the Office of Policy and Management.

Similar to the historic public/private partnerships that built the highways, telephone systems, and the electric grid across the United States, broadband today requires a massive investment to provide a greatly enhanced means for businesses to stay connected, innovate, and create jobs through the instant sharing of information. Just as Connecticut needs a strong interstate highway

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system and utility services, equally essential is accessible and affordable broadband so that businesses and consumers can reap the benefits of broadband technology to efficiently and economically develop their reach across the state and indeed the world.

The state of Connecticut has received \$1.3 million for the purpose of collecting data for use in a state and federal mapping project to determine the current extent of broadband availability across the state. Additionally, the state has received approximately \$500,000 for the purpose of developing a Strategic Plan to identify what public policy goals the state needs to support in order to successfully mirror the federal Plan's goal of universal connectivity to high speed broadband for all citizens and communities.

As program manager for these broadband projects, the OCC is specifically responsible for developing a Connecticut Broadband Strategy Plan for statewide initiatives over the next five years. These programs are directed at broadband strategic planning to create policies and implementation strategies to be adopted by the state in the next

several years to lead to the creation of a broadband network that provides all communications services, including interactive, information, and entertainment services for all residents and businesses in the state.

The OCC will utilize consultants such as the Connecticut Academy of Science and Engineering (CASE) and the Connecticut Economic Resource Center (CERC) to conduct surveys and academic research to identify and research methods for implementing the public policy goals already identified by the state of Connecticut, the federal government, and including the FCC's National Broadband Plan. It is anticipated that the Connecticut Broadband Strategy Plan will enable local groups, non-profit organizations, or industry providers to provide "technical assistance" to create train-the-trainer activities and create local PC centers. Additionally, the Connecticut Broadband Strategy Plan will implement an "e-government" model in order to improve efficient use of the state's own resources, agencies and other public entities to encourage use by residents and businesses by the example of state government.



CL&P Distribution Rate Increase Slashed

On June 30, 2010, the Department of Public Utility Control (DPUC) approved a rate increase for The Connecticut Light & Power Company's (CL&P) distribution business of \$63.4 million effective July 1, 2010, and an incremental \$38.5 million effective July 1, 2011. The Company's rate application that was filed on January 8, 2010 sought rate increases of \$133.4 million for the rate year commencing July 1, 2010 and an incremental \$44.2 million for the rate year commencing July 1, 2011.

CL&P timed the rate changes to correspond with the expiring

Rate Reduction bonds that are funded by the Competitive Transition Assessment ("CTA") which were scheduled to expire on January 1, 2011. The CTA charge yielded approximately \$210 million annually. As an alternative to increasing rates on July 1, 2010, CL&P proposed to defer recovery of one-half of the 2010 increase until January 1, 2011 at which time would implement a one-time \$210 million increase in distribution rates over an 18-month period (January 1, 2011 – June 30, 2012).

The DPUC approved CL&P's alternative rate scenario such that rates approved will not go into effect until the CTA declines on January 1, 2011. Then, the two-year increase in revenue requirements (from July 1, 2010 – June 30, 2012) will be collected evenly and in a levelized manner over the following 18 months, including carrying costs. As a result, CL&P's distribution rates therefore will increase by \$111.1 million on January 1, 2011. This is an increase to distribution rates of 14.2% and an increase of approximately 2.9% of total rates.

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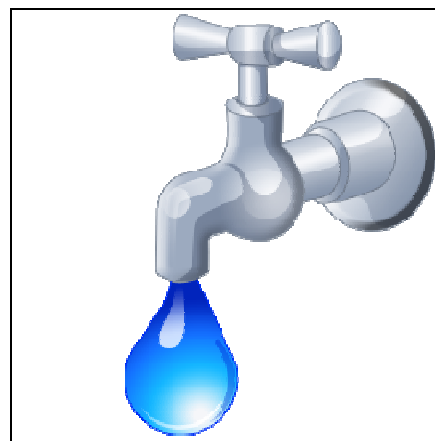
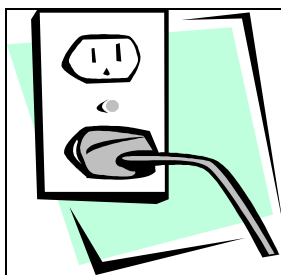
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Even with the distribution rate increase, the new RRB issuance and new CTA charges (see article above “Hidden Tax on Electric Ratepayers”), because of overall net reductions to the CTA and generation service charge that will also take effect on January 1, CL&P’s overall rates will decrease on January 1, 2011 by approximately 2.5%.

Major areas of adjustment made by the DPUC to the Company’s application include: rejecting CL&P’s proposed decoupling and pension tracker mechanisms; maintaining the allowed return on equity of 9.40%; reducing expenses by over \$40 million associated with payroll, office rent, depreciation and income taxes.

During the proceeding, OCC had advocated a rate increase of \$6.9 million above current rates effective July 1, 2010 and an additional \$40.6 million effective July 1, 2011.



Connecticut Water Company Rate Increase Reduced From 26.4% to 12%

On January 6, 2010 the Connecticut Water Company (“CWC”) filed a request for a rate increase with the DPUC. CWC requested an increase of approximately \$16,282,655 or 26.4% over present rates in rate year 1 (RY1), an incremental \$1,399,826 or 2.3% in rate year 2 (RY2), and an incremental \$1,399,401 or 2.3% in rate year 3 (RY3). OCC was an active party to the proceeding, and advocated for a reduced rate increase of 6% or \$4 million above current rates.

CWC’s application was the first of its kind in the state’s water



utility industry in several respects. CWC sought a three-year rate plan with three years of rate increases as well as a number of new and novel ratemaking mechanisms that have not been adopted before by the Department for regulated water utilities. These included a decoupling mechanism, called the WCAM that operates in the form of a sales adjustment clause; a base load revenue projection method used to project *pro forma* consumption revenues; and a return on equity level (11.3%) which would have been the highest allowed by the Department for a major utility in over a decade.

On July 14, 2010, the DPUC approved a rate increase for CWC of \$8 million. With the help of OCC's advocacy, the DPUC rejected the Company's proposed multi-year rate plan and WCAM/decoupling mechanism, reduced CWC's ROE to 9.75% and adjusted CWC's capital structure to reflect the Company's continued use of short-term debt and the imbalance between total capitalization and rate base. Other areas of adjustment suggested by OCC and made by the DPUC to the Company's application include rejection of

CWC's proposed base load revenue methodology and reduction of expenses associated with payroll, purchased water, chemicals and purchased power.

OCC Defends Appeals of DPUC Decision Rejecting SCG/CNG Rate Case Requests

OCC joined the DPUC in defending DPUC's rate case rulings for Southern Connecticut Gas Company ("SCG") and Connecticut Natural Gas Corporation ("CNG"). The DPUC rejected SCG and CNG's rate increase requests, and the two companies appealed to the Connecticut Superior Court. OCC wrote lengthy briefs in support of DPUC's positions at the Superior Court and actively participated in oral argument. This advocacy was successful, as the Superior Court affirmed the DPUC's rulings. The companies have now appealed to the Connecticut Supreme Court, where OCC will again participate actively in briefs and arguments in defense of the DPUC's rulings.



OCC Awaits Key DPUC Ruling in Electric Integrated Resource Planning Proceeding

OCC again participated actively in the most recent integrated resource planning (IRP) proceeding before the DPUC. The Legislature re-established integrated resource planning in Connecticut in 2007. The goal was, among other things, to ensure that Connecticut will procure electricity infrastructure and resources, when needed, such that we will have reliable electric service and an improvement to our electricity rate situation, while also acting in an environmentally responsible way. Comprehensive and informative plans were filed, as required, by CL&P and UI (jointly), as well as by the Connecticut Energy Advisory Board (CEAB). Lengthy DPUC hearings were held for several days in June.

The proceeding analyzed our present and foreseeable (10-year) needs for new power plants (conventional and renewable), new demand-side resources (energy efficiency and demand response), new transmission

lines, and other resources. Since natural gas is a key fuel for Connecticut's power generation fleet, the availability and expected prices for natural gas also impacted the discussion.

OCC ultimately recommended that the DPUC avoid procuring new electricity resources at present and to see how the situation looks in 2012, when we will do the next IRP proceeding. This recommendation was based on many factors, including:

- the fact that we have adequate resources to maintain reliable electric supply already, which is in turn a result of recent efforts to build new power plants as well as reduced load growth relating to the recession;
- the fact that the situation with the large, new Klean Energy plant in Middletown is uncertain, but will likely be more clear in 2012;
- the situation with the major, proposed New England East-West

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- Solutions (NEEWS) transmission line is unclear (since the close of hearings and briefs, the construction of NEEWS has become even more likely); and
- potential significant changes in the regional electricity market rules, which rules changes should also be much more clear in 2012.

On the horizon for the next few IRP proceedings will be (a) how to deal with the pending retirement of several decades-old power plants that exist around the state; and (b) the difficult struggle to meet or further consider the renewable portfolio standard which requires that we have 20% renewable electricity by 2020.

A DPUC draft ruling is expected around August 25th, with a final decision to follow in September.

OCC Brochure Available

OCC has published an informational brochure to tell ratepayers who we are, what we do, and describes several docket and court wins on their behalf. The brochure has been distributed to all public libraries in Connecticut and is available for downloading from OCC's website (www.ct.gov/occ). Call OCC at 860-827-2900 to request copies.

The State of Connecticut's Office of Consumer Counsel, located at Ten Franklin Square, New Britain, Connecticut 06051, is an independent state agency authorized by statute to act as the advocate for consumer interests in all matters which may affect Connecticut consumers with respect to public service companies, electric suppliers and persons, and certified intrastate telecommunications service providers. The Office of Consumer Counsel is authorized to appear in and participate in any regulatory or judicial proceedings, federal or state, in which such interests of Connecticut consumers may be involved, or in which matters affecting utility services rendered or to be rendered in this state may be involved.

